The Mortgage Banker

APRIL
1950

Speaking at MBA's New York Conference: Sen. John Sparkman of Alabama (top); Robert P. Gerholz, NAREB president and FHA Commissioner Franklin D. Richards; and (below) Thomas P. Coogan, NAHB president.

In this Issue THE FUTURE OF FNMA ★ ECHOES FROM THE BUILDERS CONVENTION ★ SERVICING MEN TELL IDEAS THAT HAVE WORKED FOR THEM

People and Events

PRESIDENT DEMING IS RECOVERING RAPIDLY

The *President's Letter* which usually appears in this space is missing this month but will be back soon. President R. O. Deming, Jr., who was seriously injured in an automobile accident recently as he was returning from a speaking engagement in Tulsa, Okla., is well on his way to complete recovery. He suffered hip and rib injuries and for a while his condition was considered most serious. The most serious phase is now over and recovery is progressing very rapidly.

NEW MBA ORGANIZED IN COLUMBUS, OHIO

A new mortgage bankers association, the Columbus Mortgage Bankers Association, Columbus, Ohio, has been organized with 18 charter members, all MBA member firms except two. Charles G. Schenck, Wm. P. Zinn & Co., was elected first president; Joseph Downs, Ohio State Life Insurance Company, was elected vice president and W. W. Wheaton, Galbreath Mortgage Company, secretary-treasurer. Three of the four members of the board of governors are Fred R. Place, Ohio Title Corp., William E. Maidlow, Farm Bureau Insurance Companies, and L. D. Reynolds, Northwestern Mutual Life Insurance Company. A fourth member is to be elected.

NAME REUBEN A. SCOTT

George C. Holmberg, vice president and treasurer of Northwestern National Life Insurance Company, who has headed the company's investment department since 1925, has resigned the latter position and will devote more time to developing investment outlets for the company. He remains as vice president. Some of the investment department's previous functions have been split three ways and the new mortgage loan department is now headed by Reuben A. Scott as director of mortgage loans.

ON OCCIDENTAL BOARD

Another mortgage banker has assumed a directorship of an important life company. Owen M. Murray, senior partner of The Murray Investment Company, Dallas, and former president of MBA, has been elected to the board of Occidental Life Insurance Company, Los Angeles, to fill the vacancy created by the death of A. P. Giananni. Mr. Murray is one of the most widely known mortgage men in the country.

MAKES NEW CONNECTION

Samuel Spitzbart, until recently mortgage officer and mortgage counsel of Franklin Square National Bank, Franklin Square, N. Y., has become a partner of Seldin Organization, Jamaica, N. Y. He is secretary of the New York MBA and widely known as a writer and lecturer on mortgage financing.

NEW YORK MBA ACTION

The New York MBA, headed by Lawrence A. Epter, has adopted a policy of taking aggressive action on all legislative proposals presented in Congress, and is requesting that its representatives be heard at the various hearings. Mr. Epter has appointed a group which is directing this effort. It includes Fred W. Jackson, assistant vice president, Dime Savings Bank; Eugene J. McCarthy, assistant treasurer, The County Trust Company; Albert R. Berkely, vice president, Berkely & Judelson, Inc.; and William Batcheler, treasurer, United States Life Insurance Company.

MBA CLINIC IN MIAMI

MBA's 1950 Clinic program will soon be underway with the initial meeting in Miami at Hotel McAllister, March 30 and 31. Similar Clinics are scheduled for Des Moines and Denver in April. At Miami, members will hear FHA Commissioner Franklin D. Richards, G. Rowland Collins, dean of the graduate school of business administration, New York University, and Russel Hunsberger, partner of Main and Company, Philadelphia. The latter will speak on cost accounting for mortgage firms, a field in which he and his firm have pioneered.

W. A. Clarke, chairman of MBA's special committee on legislation, and Samuel E. Neel, MBA Washington counsel, will address the Clinic on national legislative developments including the Association's own program, and Milton T. MacDonald, MBA vice president, and Harry C. Barnes, vice president, Fidelity-Philadelphia Trust Company, will speak on interim financing.

The program adds up to two packed days of practical help and advice for today's mortgage man. If you haven't made plans to attend this initial Clinic, there's still time. Make reservations direct with the hotel.

PLANS OF CHICAGO MBA

Chicago MBA's second educational meeting for 1950 is scheduled for April 19 and will feature a debate on cooperative housing with the younger men in the organization taking the leading roles. The first educational meeting of the Association drew an attendance of 170.

The panel subject was "Pay-Outs on Construction Loans." Walter E. Berg, vice president of Dovenmuehle, Inc., covered construction pay-outs as applied to residential loans, on the conventional and FHA basis. Victor A. Malone, vice president of H. F. Philipsborn & Co., analyzed the method of pay-outs under Section 608 and Edmond C. Burgess, manager of the title clearance department of Chicago Title and Trust Co., analyzed the L-form policy and his company's requirements.

LOCAL CLINIC PLANS

Detroit MBA has scheduled its Spring Clinic for April 26 and it will be an all day session devoted to FHA and VA matters followed by a dinner meeting that evening.

The Philadelphia MBA has scheduled its annual Clinic for May 8, Gordon M. Burlingame, chairman of the Clinic Committee, announced. Emphasis will be on questions not covered at MBA's Eastern Conference.

The Mortgage Banker

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Volume 10 **APRIL, 1950** **Number 7**

Contents

MBA CALENDAR

March 30-31, MIAMI, Southeastern Clinic, McAllister Hotel.

April 10-11 NEW YORK, Eastern Mortgage Conference, Commodore Hotel.

April 17-18, DENVER, Mountain States Clinic, Cosmopolitan Hotel.

April 19-20, DES MOINES, Middle Western Clinic, Hotel Savery.

May 19 CHICAGO, Spring Meeting MBA Board of Governors, Drake Hotel.

June 19-23 CHICAGO, Third annual Mortgage Banking Seminar held in cooperation with Northwestern University.

September 27-29 DETROIT, 37th annual Convention and Exhibit of Building, Industry and Services, Statler and Book-Cadillac Hotels.

MBA PUBLICATIONS
(Current and Coming)

MBA DIRECTORY, issued every other year. Current issue is 1950 edition. Each member firm receives one; additional copies $1 each.

MORTGAGE LOAN SERVICING PRACTICES by William I. De Huszar. First book on mortgage loan servicing published. Additional copies available to members at $2 each; to nonmembers $3.50 each.

TEXTBOOK ON MORTGAGE BANKING, Robert H. Pease, Editor. To be published by McGraw-Hill Book Company, Inc., New York.

MBA POCKET MANUAL—Annual compilation of MBA committees for the current year, officers and other groups within the Association in addition to constitution, by-laws and other data.

DESIGN FOR DOING, DEVELOPING AND DELIVERING MORE MORTGAGE BUSINESS. Membership booklet being used in this year's solicitation. Members should request a supply for use in making membership presentations.

Pay-outs on 608s

By VICTOR A. MALONE

A DESCRIPTION of our method of handling construction pay-outs on 608s should be prefaced by some observations of our thinking and approach on construction loans generally.

Regardless of the method used, we are trying basically to furnish interim funds for payment of completed work on construction; and, in the end, finish with our mortgage as a good and valid first lien. There are certain procedures necessary under law to protect ourselves from mechanics' liens and other conditions that might impair our mortgage. Considering the purpose and the means, we have tried to devise a method that will remove as far as possible the likelihood of any jeopardy to our loan and at the same time to eliminate delays and inconvenience to the contractor and sub-contractor.

If it is a new account, we call in the contractor and sponsor prior to the first disbursement and explain our pay-out and affidavit forms and review with them our general contractors' sworn statement form. We explain how we prefer these forms filled out and the type of waiver to secure from material supply houses or sub-contractors. We explain that we do not accept one dollar waivers. We have it clearly understood just what the contractors must do in order to secure prompt FHA inspection reports, which in turn will permit us to make prompt monthly payments.

We also try at this point to get more closely acquainted with the general contractor and to learn his method of operation, his experience, what trades, if any, he runs and in general his background. Such information is frequently very valuable in later decisions that may have to be made. We find that the time taken at the start to have a thorough understanding in all matters pertaining to pay-outs, as well as to securing a closer understanding of how the general contractor intends to handle his work, is time well spent.

Generally speaking, we require a 10 per cent completion bond to be furnished by the general contractor. However, this is not always the case. FHA requires, at the time of closing, that all funds necessary to complete in accordance with their estimate of cost, be deposited with the mortgagee. Frequently these estimates of cost by FHA are higher than costs shown by the builder; consequently excess cash is often held by the mortgagee until completion before it is permitted to be refunded.

If there is, for example, a 10 per cent difference between the cost shown by FHA and that of the builder and FHA's is higher, and we believe the builder's cost to be reasonably accurate, we are then mostly likely satisfied to waive the completion bond. For example, where the general contractor's cost and that of the FHA are about the same and the sponsor is strong credit-wise, we might agree to accept the sponsor's performance agreement.

In other cases—and this type is most common under 608—there exists the builder-sponsor relationship, that is, the builder and sponsor represents the same ownership. Assuming there was no excess cash required at time of closing by FHA and assuming that the sponsor has attachable assets, we probably would waive the general contractor's completion bond and accept the sponsor's performance agreement.

These are really credit matters and each case has to be considered on its own merit. We recently had a case where the difference between FHA estimated cost and that of the builder, who was also the sponsor, was over $200,000. The sponsor was able to secure a bond guaranteeing FHA to the extent of the difference, if actual cost required it. Of course this was a very competent and financially strong sponsor-builder.

If you are just getting started on 608s or new 207s, it may simplify your procedure to keep in mind that the general contractor and sponsor are two different entities as far as FHA forms and regulations are concerned even though they are the same person. This distinction affects both pay-outs and escrow deposits.

When loan closing at the FHA is completed, we ask the general contractor to file with us, on our form, a statement of his costs. The form used by us is as nearly complete as we can make it. Our idea in making this break-down so detailed is that we hope to eliminate the possibility of overlooking, either by ourselves or by the contractor, any items required in plans and specifications.

Under the heading of steel we have the following subdivisions: structural, metal frames, metal sash, metal doors, and metal stairs. We have had cases where these items were let to four different companies. In another case, with a similar number of subs under

If you've handled 608s, you have experienced the complicated procedure which governs pay-outs. Mr. Malone, who is vice president of H. F. Philipsborn & Co., Chicago, which has handled a lot of them, describes here the method his organization uses. And he tells it in careful detail—detail which, he says, often makes him wonder if all of it is necessary. But it looks like a method which assures the most careful completion of financing.

steel, we were all paid out when a sub-contractor came in looking for payment for erection of metal stairs. We had assumed stair erection to be under carpentry.

We pay directly to all sub-contractors. We do not make a lump sum payment to the general and have him pay his subs. We pay direct to the general only the trade or trades which he is doing himself. We have several reasons for this: *first*, we are not always dealing with financially strong general contractors; *second*, we are in a better position to secure proper waivers and affidavits; *third*, we frequently have to secure LIC policies on 608 loans when work is completed and to do so waivers must be in a form acceptable to the title company. If we leave this work to the general contractor, we are put to a great deal of trouble in securing proper waivers and affidavits at a later date.

Our order is a combination order waiver and affidavit. We require the signature of the contractor, as well as that of the owner on each order. In the event it is a corporation or trust which holds title, we require a properly authorized signature by the corporation or trust. When the general contractor has filed his sworn statement with us, we verify by mail the amount set up for each sub-contractor shown on his statement. One of the reasons for this is to give us a further check on the total cost. We also check the amount shown for each trade against the percentage chart of cost of similar jobs which we have handled. Assuming that the contractor's statement is reasonably within these limits, we are ready to pay out.

We do not follow the "cost break-down" statement furnished FHA by the general contractor. His sworn statement on our form we find to be much more realistic. In other words, the general contractor shows a certain contract price in his "lump sum contract" between himself and the owner which is furnished FHA at time of closing. He also breaks down this "lump sum contract" into what is known as "trade break-down." This "trade break-down" does not necessarily agree with his actual sworn statement of costs. In making payouts, we follow the latter.

We check at the recorder's office twice a month for notice of mechanics' liens on our construction loans. FHA authorizes monthly payments on construction work under 608. The mortgagee is insured for the amount of each authorized payment. The FHA inspector furnishes the general contractor with a statement each month, showing his estimate of percentage of work completed. The general contractor in turn files with us FHA form No. 2403W showing these percentages.

The mortgagee in turn forwards these estimates with request for approval on form No. 2448W to FHA for official acceptance. Incidentally, FHA authorizes dollar amounts to be paid on each trade, in accordance with the figures shown by the contractor on his cost break-down (furnished at the time of closing). If his cost estimate figures have been put in lower than FHA estimated cost, his payments authorized by FHA will be based on his lower figure. As a result, he will be able to draw less during construction. This fact should be kept in mind at the time of closing, and cost shown at highest figure.

Some adjustments have to be made between the break-down trades, as shown by the FHA, and that shown by the general contractor. FHA makes several divisions of carpentry work and authorizes amounts for labor and material accordingly. There are several of this type of differences that will require adjustments. We try to make payments as closely as possible to the percentage set up by FHA for completed work, as applied to each trade. However, occasionally the general contractor will want an excess sum paid to one contractor, and a lesser sum to another contractor, which we are agreeable to, providing it is within certain limits. However, at no time do we pay out an amount in excess of the total authorized amount by FHA.

It is well to keep in mind that FHA holds back 10 per cent in each trade and does not authorize the payment of this 10 per cent until 30 days after their final inspection. This is not always satisfactory to the general contractor, but he should be informed of it at the start. At least he may be able to work out deals with his subcontractors to help carry this 10 per cent. We do not accept waivers given for future work when they are substituted for cash. If a contractor, therefore, is set up for a certain amount, we will release funds to him only in proportion to percentage of work completed.

Keep in mind that, in the event the mortgagee runs into trouble and asks the FHA to take over, he must deliver them a title in exactly the same condition as when FHA first endorsed the mortgage. Waivers for future work in lieu of cash do not suffice under these conditions.

All 608 loans have a separate escrow for offsite work and working capital. The working capital is 1½ per cent the cost of the structure. Neither escrow is any part of other funds needed for construction. Change orders covering any change in plans or specifications must be filed for approval by FHA regardless of whether the change increases or decreases the cost. Such prepaid items as insurance, FHA examination fee, financing cost, etc. may be withdrawn from loan account on approval of FHA on the first authorization.

Payments for on-site materials may be made under FHA regulations. This applies to material or equipment bought in advance to actual time it is needed and stored on-site. The regulations by FHA for authorization to pay for such items are relatively simple. As work progresses, we require a statement in affidavit form from the general contractor on each monthly draw. This affidavit refers to the original sworn statement and recites any changes either in amounts or in subcontractors or any new subcontracts let. This requirement is very important for protection under the lien law.

Perhaps some of the rules and regulations that we have are unnecessary. We are fully conscious of the fact that no matter how many rules an office makes, it does not mean that they cannot run into trouble. For this reason, the man in charge of payouts should be one who is familiar with building trades and who speaks their language. An experienced man in this work is likely to sense more accurately the kind of contractor he is dealing with, and whether or not he is doing not only a good construction job but also is handling his business affairs in a satisfactory manner. There will always be decisions to be made as construction progresses which have not been covered by anything in the forms or otherwise; and here again the experienced construction man will be called upon to use his best judgment.

Biggest Building Year Yet

Despite middle income legislation, despite anything adverse that might happen, builders expect 1950 will be another banner year.

THIS is going to be another banner home building year, maybe the biggest yet. With two of the 12 months gone (as this is written), 1950 holds every indication of breaking all previous records. That may seem rather optimistic; and if it is, then the nation's home builders themselves are wrong because it's a fair statement of what they themselves believe. At their annual convention in Chicago in late February, optimism among them was widespread. A good deal of cautioning and warning was done from the platform as to the dangers ahead from the "middle income" legislation and other government threats but from the thousands of builders attending came reports of big operations today and bigger plans in the months ahead.

In January there were 80,000 starts for houses and apartment units, 30,000 more than for the same month last year. Thomas P. Coogan, the new NAHB president, said 1,000,000 new houses this year for sure and then had his own rosy estimate beaten considerably by T. B. King of the VA who set it at 1,250,000. HHFA Administrator Raymond M. Foley said we must build a million a year for many years to come to take care of the needs of our expanding population. It all added up to a happy outlook for the rest of 1950.

Indicative of the trend of the times with the builders, the biggest session of their week-long convention—in fact, the biggest session this very large organization has ever held—was for its mortgage discussion. Hardly another builder could have been squeezed with a shoe horn into the huge Stevens Hotel ballroom.

As to general objectives in the home building field, Mr. Foley boiled down the government's ideas rather clearly. Here are his views:

"We need more rental housing at much lower rents, privately built. And I mean family-sized units—not cramped efficiency units. To accomplish it, we need a thorough review by the industry of its approach to this subject.

"We need the entry of long-time equity capital, which can be satisfied with a low interest rate.

"We need a revised view of necessary profit percentages.

"We need the new legislative authorizations now under consideration.

"We need more moderate-priced houses for larger families. We have over-emphasized the two-bedroom house. Pending legislative proposals will help materially in this field. The agency has recommended moderate lifting of insurable mortgage ceilings in the 95 per cent mortgage class. Your spokesmen have asked for much higher ceilings. Fundamentally, I think it is a blunder for the industry to demand complete financing support for too-high costs rather than joining in the most searching effort to bring costs down because it is impracticable to finance them.

"We need to add considerably to the size of the small economy house commonly offered now below $8,000.

"We need a more responsible attitude on the part of lenders and builders alike to the cooperative idea in housing.

"We need a very large increase in the encouraging amount of interest that has been taken in the past two years in the housing needs of minority groups, especially of Negroes in our cities, north and south. FHA has been doing a great deal to encourage such developments. All our experience indicates this as a promising and almost untouched market.

"We need a further development of prefabrication, partial, total, on-site and in-plant. Prefabrication, in part, or total on site, is already a part of your own general method and it will grow. Plant prefabrication has not yet had all the testing it needs to determine what may be the limitations of its market. I don't believe it should be denied the opportunity.

"We need very definitely and very soon a larger entry of private capital into the secondary mortgage market. We cannot maintain the high volume of building required if we are forced to depend continually on a publicly-financed secondary market as an immediate outlet for a large percentage of the loans made.

"We need further reduction of the cost of housing measured in the purchasing power of the family of average and less than average income. The hard core of our whole problem is cost. Some may say I am wrong in repeating that assertion. Some of the industry spokesmen say costs cannot come down further. I believe they can, as translated in sales and rental prices, and I believe they will because they must, if we are to serve our people fully through private enterprise."

With that, the discussion turned to the immediate matter at hand—mortgages. Then, as it would in any discussion of mortgage loans, up popped the question of the 4 per cent GI rate—4½ per cent FHA rate. Coogan addressed the question to King.

"Tom Coogan slipped me a mickey just then," King said. "Now the question was regarding parity of the FHA and GI rate—"

Coogan: "That's it."

King: "Well, I certainly don't see a higher GI rate than 4 per cent . . .

we don't control it, exactly . . . but if I were making any plans, plans of any kind based upon a higher rate, I just wouldn't, that's all . . ."

"Well," said Coogan, in ending up that discussion, "4 per cent hasn't provided an adequate flow of funds and there must be a flow of funds."

Then Walter E. Alessandroni, prominent American Legion spokesman on housing, spoke up:

"Now, we'd better be realistic about this whole business. There's going to be no change in the 4 per cent rate. Veterans would be deeply offended by an increase. There's not a chance of anyone changing it. It's here to stay. And if it won't work the government can and will make it work—by putting more into it."

The 505 Question

Then Coogan turned the discussion toward the 505 loan. "What about the 505 loan?" he inquired.

King: "I've always opposed the 505 loan. It's a bad loan. It should never have been visited on the mortgagee or borrower."

Coogan: "Ninety per cent of financing is under 505 in some areas. Our entire production would be cut."

Foley: "Its present use is chiefly to provide construction financing for builders who contemplate 501 eventually."

Alessandroni: "It's a dishonest way of getting a higher rate. It means charging veterans more than they should have to pay. The 505 should never have been there."

Coogan: "But it would be disastrous to do away with it if there's no substitute at hand—"

Richards: "No, make no changes that would disturb the present situation—"

Coogan: "We'd like to see VA have a firm commitment . . ."

A change of discussion now.

George S. Goodyear, builder and mortgage banker of Charlotte, N. C., said:

"What about insurance of construction loans? In many places construction loan money isn't available."

Foley: "It's been proposed. If we insured advances, we might get a property under construction. It wouldn't do, as a national policy."

On to something else.

Question: "How come pre-fabs get higher valuations than conventional houses?"

Foley: "I'm used to answering that question the other way around. It's not our intention. I do not believe it is justified."

The builders' general policy statement contained these points:

» Commended FHA but wants it to constantly adapt its procedures to changing conditions.

» Wants VA guarantees continued but vigorously opposes any plan to do away with 505.

» Thinks FNMA is okay but wants a parity of VA and FHA rates at "the lowest feasible economic rate set by competitive demands for investment funds."

» Stresses the importance of adequate mortgage finance on a three-year basis to eliminate current constant turmoil and uncertainty in this field."

Everyone went away with a renewed confirmation of the general belief that the first half of 1950 is going to be a highly profitable period. And probably most left with the same view for the last half. But not all. A dissenter was the well-known real estate analyst, James C. Downs, Jr. who anticipates a "sharp over-all drop in the private building market late in 1950."

He predicted a drop in the number of apartment starts in the high-price class when 608 ends and it must end, he said, "to avoid market catastrophe in that price class." Purely private capital will not venture into that market in volume, Downs said.

Market Illusion

"On the purely quantitative side the market appears to be almost inexhaustible," he said. "Builders who do as well in 1950 as they did in the past must operate on careful market analyses, with a new, higher level merchandise desirability within the low limits of the market.

"In the early part of 1949, the building market was shrinking rapidly due to the exhaustion of the backlog of unfilled housing demand, unstable trends in employment, and the enlargement of competitive buying. However, a dramatic change in the financing climate produced the conditions under which 1949 residential construction went ahead to a new postwar high."

He pointed out that the number of houses which can be absorbed by the American people is dependent upon the amount of cash down payment required and the level of monthly installments. Citing the influence of financing conditions he pointed out that a decline of one-half of one point in the interest rate and an increase of five years in the amortization term gave each potential housing buyer twenty-five per cent more purchasing power in mid-1949 than he had a year earlier.

"This financing liberation in 1949," he explained, "added fourteen per cent to the potential number of families that could be reached by builders.

Impressive Record

"There is no doubt that the general attitude of buyers improved rapidly toward the middle of 1949. Most people became convinced that prices had reached their low and that they would gain no further by remaining out of the market. Savings continue to mount and as we go into 1950 there is a new push to get these accumulated funds invested.

"The political factor was a clincher in making the year 1949 a record housing construction year. This record was achieved in spite of the fact that the number of single family dwellings built in 1949 was lower than the total in 1948. The 'plus' on the building total came from apartment construction under the FHA 608 program."

Meantime, current figures confirm the majority belief that this will indeed be a big construction year. A mid-winter building record was assured by a less-than-seasonal decline in construction activity during February. Total value of new construction put in place during February amounted to over $1.4 billion, off 5 per cent from January, but 21 per cent more than the total for February last year.

In terms of physical volume and in dollars spent, the amount of new construction put in place during the past four months has surpassed all previous records of mid-winter construction volume including war construction in the winter of 1941-42.

Non farm homebuilding has contributed a major share to construction activity this winter. Private residential building valued at $600 million in February was 50 per cent above a year ago and it accounted for more than 55 per cent of total private outlays for new construction.

Total value of privately-financed construction put in place during February was $1,078 million, about 19 per cent above February, 1949.

POOR LOANS

are made when business booms

GOOD LOANS

are made when business lags

By R. J. SAULNIER

THE evidence of National Bureau of Economic Research studies of mortgage credit experience shows clearly that the quality of the loans made during periods of peak economic activity is low relative to the quality of those made during periods of depressed economic conditions. Loans made during periods of high construction activity and high real estate prices are inferior in quality to those made during periods of low construction activity and low real estate prices. I will not submit here of course all the data that can be marshalled to support this point, but the factual basis for this statement is that loans made in the early years of the twenties went to foreclosure in but two to three per cent of the cases; those made in the last years of the twenties—1927, 1928, and 1929—went to foreclosure in something like 25 to 30 per cent of all cases. Again, the loans made in the depth of the depression of the thirties went to foreclosure in a very low percentage of all cases, something under three per cent.

» NOT SURPRISING: This observation—that the poorest loans are made during periods of peak activities and the best loans during periods of depression and early recovery—may seem somewhat paradoxical, if not an outright error of fact; but some consideration of the circumstances of mortgage lending will suggest that no other condition could actually be expected to prevail.

When loans are made at peak real estate prices the future that lies before them—though this is not known at the time—is one of declining real estate values, and of individual and business incomes—all conditions calculated to produce loan delinquency and eventual default.

On the other hand, loans made during a period of low real estate prices, and on the basis of the conservative appraisals which characterize such periods, have before them—though again it is not known at the time—a period of rising prices and incomes and a general strengthening of the equities of owners. Naturally, every step forward in the course of economic recovery strengthens the loan and improves its quality, just as every step in the direction of economic deterioration worsens those loans made at the peak. In a sense, there is a cyclical pattern to investment errors.

» HINDSIGHT: There is one final way in which cycles of economic activity affect life insurance company mortgage lending, namely, through the effect that these cycles have on the values of real estate and thus on the experience of these companies in disposing of owned properties. There is some temptation, when one has the benefit of hindsight, to say that companies would have been well advised in the years since 1932-33 to have postponed the sale of foreclosed properties and thus to have taken advantage of higher real estate prices on the upside of the cycle.

Whatever may be the merits of this as an investment policy, the fact is that insurance companies (as well as other types of lenders) do not behave in this manner, and for very good reasons. In fact, the criterion that would appear to be followed by many mortgage financing agencies in disposing of their properties is to sell property just as soon as it is possible to effect a sale without substantial loss of capital.

There appears also to be a second criterion in these matters which is to sell properties, and to take losses, when, as and if the other investment operations of the agency produce an income sufficient to absorb these losses without doing substantial damage to the company's earnings record or, what is more serious, to its capital. Whatever may be our judgment of such criteria from the viewpoint of our interest in maintaining economic stability, it is clear that there is a conflict here between this interest and the interests of financial conservation.

(Continued back inside cover)

Mr. Saulnier is on the faculty of Barnard College, Columbia University, as well as a member of the research staff of the National Bureau of Economic Research, Inc. In this latter connection, he has been making some exhaustive studies in mortgage lending, studies of a kind which our industry has not seen before. These studies have been uncovering facts as to how much of the interest rate which a life company receives is retained in the end and how much goes for servicing and acquisition expense. Some of what his group has found has been reported in these pages and more will be in the months ahead. Recently Mr. Saulnier appeared at a round table discussion sponsored by the American Finance Association and the University Teachers of Finance. His subject was Insurance Company Urban Mortgage Lending and the Business Cycle which will appear in full in the American Finance Association Journal. Some excerpts from the closing portion are given here. Mr. Saulnier concludes that in the attempt to liberalize mortgage credit there's not too much that can be done—because it's already been done!





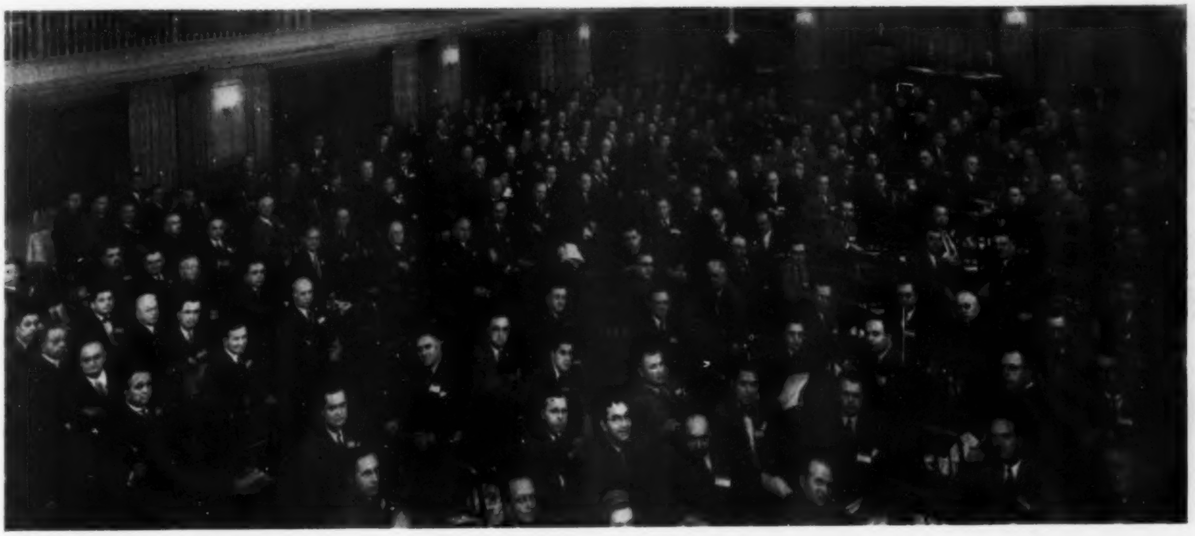



Around the Conference

No. 1. ASSOCIATES REPORT ON PRESIDENT DEMING'S ACCIDENT: Guy T. O. Hollyday, president, Title Guarantee Company, Baltimore, and former MBA president; MBA Vice President Milton T. MacDonald, and vice president, Trust Company of New Jersey; George H. Schmidt, vice president, Title Guarantee Company, Baltimore; and Harold Wadsack and R. L. Harrison, vice presidents, The Deming Investment Company, Oswego, Kan.

No. 2. SHOP TALK BETWEEN SESSIONS: James R. Tencher, J. R. Tencher Company, Washington, D. C.; and J. M. Hendricks and Jno. W. Buey, Commonwealth Life Insurance Company, Louisville, Ky.

(Captions continued next page)



CHICAGO CONFERENCE WAS MBA'S LARGEST

How the mortgage industry has grown in less than a decade and how MBA has expanded with it! Only eight years ago 608 turned up for MBA's annual convention in Chicago.

This year 625 were on hand for MBA's first *regional* meeting in Chicago. It was the tenth anniversary of these regional clinics and conferences which were inaugurated back in 1940 by Byron T. Shutz. With regional attendance now exceeding convention attendance of only a few years ago, regional hardly seems the appropriate word. The Chicago Conference was primarily designed for middle western and southwestern members but attendance was from 33 states and the District of Columbia and Canada. Nearly 70 were registered from Chicago, 31 from Detroit, 32 from New York City with all principal middle western cities represented by heavy registrations.

Above is a view of the opening session showing only a portion of the ballroom.

With advance reservations for the New York Conference and three Clinics running heavy, possibly as many as 1800 members will attend our 1950 regional meetings.

No. 3. LOW DOWN FROM TWO MBA PAST PRESIDENTS: John C. Thompson, president, New Jersey Realty Company, Newark; and Aksel Nielsen, president, The Title Guaranty Company, Denver.

No. 4. CONFAB BEFORE RICHARD M. HURD TALKS: Mr. Hurd, who is vice president, Teachers Insurance & Annuity Association, New York; Emory F. James, City Bond and Mortgage Company, Kansas City; A. L. Trowbridge, Teachers Insurance & Annuity Association, New York; W. F. Joseph, New York; Martin McLean, Jr., The McLean Corporation, New York.

No. 5. TOPIC: RESEARCH: Joe Jacques, General-American Life Insurance Company, St. Louis; Mr. Hollyday; and Lenox Carruth, vice president, Republic Insurance Company, Dallas. Mr. Jacques met with the MBA Research Committee headed by Mr. Hollyday at the Chicago Conference.

No. 6. FAMILIAR FACES: C. A. Mullenix, Mullenix Mortgage Company, Cleveland, and past president of MBA; MBA Secretary George H. Patterson; Carlton Schultz, Carlton Schultz Investment Company, Cleveland; and E. H. Grootemaat, A. L. Grootemaat & Sons, Milwaukee.

No. 7. THE TEXANS DO THE TALKING: Russell H. Perry, Republic Insurance Company, Dallas; M. C. Patton, Republic in Chicago; J. Pete DeLongchamps, Jr., Independent Federal Savings and Loan Association, Denver; and Hugh H. Gaffney, Republic Insurance Company, Dallas.

No. 8. Bertram E. Giesecke on the platform opening day of the Conference speaking on housing conditions at our military installations.

DETROIT ENTRAINS FOR CHICAGO CONFERENCE: And here two of those going seem to be bidding each other goodbye. Looking out from the car is Harold Finney. The others, left to right, are: Emmett Sullivan, Lawrence C. Diebel, Leo DeRosen, of the RFC; Norman Curnow, Samuel Clark, Stanley E. Shepherd, J. B. Dawsey, Hans Gehrke, Jr., president of the Detroit MBA; Charles P. Besancon, Roland Bainbridge, George Janiga and Heyward T. Denyes.

What's to Become of FANNY MAY?

MBA suggested a plan and the administration is going to suggest another; and when the RFC investigation gets going there may be others.

THAT colossus of the mortgage industry, Fanny May, might become a different kind of animal before Congress adjourns—but don't count on it for sure. Conceivably the administration may sponsor legislation to set up a new stand-by market for mortgages which would involve the death of the present FNMA. And then again, nothing might be done at all and FNMA would continue the same type of operation it is conducting at the present time.

MBA's own plan to set up a private national mortgage association remains a part of the legislative proposals which the Association's special committee on legislation headed by W. A. Clarke has suggested this year. But, at the moment, it is in a state of suspended animation awaiting other developments on the broad mortgage and housing scenes; and one of these developments is the possibility that the administration itself might offer its own plan for a private FNMA. The thinking now is that such may well be the case.

If it comes, what will be the result? That of course will depend on what the government's idea of such an agency would be. It's pretty certain for instance that a government-sponsored private FNMA would have the same general objectives as our own and might even follow the same general outline which MBA proposed. It would confine its purchases to FHAs and GIs and its principal purpose would be to provide a secondary market for these loans. And the motives behind any such move would probably be very close to those which MBA enunciated in its own plans—to take the government out of this phase of the business and relieve it of the terrific burden it is now carrying in purchasing mortgages. That last factor has a powerful appeal to just about everyone in the administration in view of the big role Fanny May's operations play in the federal deficit.

If a federal Fanny May comes along, it would probably be in the Housing and Home Finance Agency, and not in the RFC. And there wouldn't be just one FNMA; the legislation would probably authorize the creation of many, just as our own proposals outlined. The capital stock of each such corporation would probably not be less than \$1,000,000 (we suggested \$2,000,000). Each corporation would probably be entitled to have outstanding obligations not to exceed 25 times the par value of its capital stock and surplus but maybe higher in certain cases.

But regarding tax exemption, where our plan indicated that some such tax assistance would be necessary, the government proposal probably wouldn't recognize this need and quite possibly the new FNMA might be subject to the same taxes as any corporation.

The present FNMA would be taken care of at the same time. It would wind up its affairs and the HHFA administrator be empowered to do it as quickly as possible.

It's all in the realm of speculation of course; but if something along these lines develops, it's probably coming rather soon.

In the meantime, MBA's own plan was heavily publicized in the press coast to coast. The idea of a private trade association tackling a job of such enormous magnitude intrigued editors all over the country and they played the story at considerable length.

"It is easy to squawk against government in business," said the *Chicago Journal of Commerce*, "and much harder to do something about it. But the mortgage bankers are making a try. . . . Whether the plan will succeed or not depends on many ticklish inter-relationships of interest rates and public policy. It should, however, provide a test run to help answer the question whether an industry can ever recapture a part of its business that has been taken over by the government."

"There's good economic basis for the new plan," said the *Los Angeles Times*.

And there were many other comments in the same go-to-it vein.

From some sources came suggestions of doubt. Builders to whom FNMA has been a boon (as admittedly it has been to mortgage lenders) expressed fear that we might be rushing into something rather hastily. Many could not conceive of their own high operations without the present FNMA operating as liberally as it has been. Some said in effect "don't touch FNMA unless there's something just as good to take its place." And

How Finance, alert national magazine devoted to banking, saw our proposal.

still others reeled slightly as the vastness of the project, the difficulty of securing the private capital and all the other admitted obstacles that would have to be surmounted before it became a reality.

The retiring president of the National Association of Home Builders, Rodney M. Lockwood, said that while FNMA is now doing a worthwhile job, the home builders are opposed to making the secondary market a permanent thing.

Thomas P. Coogan, the new president of the same organization, warned our Midwinter Conference to proceed slowly *(see page 14)*. Many life insurance executives expressed strong opposition to the idea while others felt the move was at least a step in the right direction. In Congress the reaction—such as it could be determined at a time when much pressing legislation was demanding the attention of members—was not unfavorable and many key figures in both branches of Congress commented favorably on the Association's courage and sense of duty and public responsibility in seeking a solution to what all admit is a big problem.

Because, regardless of the ultimate result, the effort did take courage to initiate. It was based upon sincerity and honesty and a belief that FNMA's recent operations constitute little more than direct lending. Admittedly FNMA was a big factor—no doubt the biggest—in making possible the big volume of the recent past.

In the meantime FNMA's operation continues much along the same lines as in the past. Recent figures show January purchases of nearly \$90,000,000. The agency held on January 31 loans of \$892,289,000 and had outstanding contracts to acquire an additional \$890,501,000.

At the end of February, FNMA still had around \$700 million available for commitments and purchases of FHA and VA mortgages; and RFC officials expressed confidence that the available funds were sufficient to last this current fiscal year.

Reason for confidence is the current ebb flow in the market rate of interest, resulting in steadily expanding sales of FNMA holdings. At the present time sales appear to be running at half or better than the volume of purchases. A total of more than \$68 million mortgages have been sold from a total portfolio of around \$900 million. RFC reports that present FNMA servicing agents are actively promoting sales in order to place the loans in institutions that will maintain the servicing contracts.

Recent acceleration of the sales program is seen by the following comparison:

FNMA sales from August 5, 1949 through January 31, 1950

FHA mortgages	\$39.2 million
VA mortgages	3.7 million
Total Sales	\$42.9 million

FNMA sales February 1, 1950 through February 24, 1950

FHA mortgages	\$23.4 million
VA mortgages	2.1 million
Total Sales	\$25.5 million

Sales in the last month have been more than half the previous 6 months. Currently outstanding are options to sell an additional \$120.5 million of FHA mortgages and \$57.8 million of VA mortgages.

With the possibility that FNMA might begin to operate on a revolving fund basis, no move is presently under way to press for the additional funds recommended in the President's budget message. In any case, an expansion of FNMA activity is not likely to be considered until after the completion of the "study" of the RFC to be made under the Fulbright resolution.

The NEW LOOK *in MBA*

That New Something you've probably noticed is our conviction that if we criticize and oppose we should have something constructive to propose; it is being widely applauded.

WHEN President Deming assumed office last September as head of MBA, one of the prime objectives he set for himself and the Association was an effort to do everything humanly possible to emphasize our group's desire to play a constructive role in national affairs in which we directly play a part. The day has passed, he declared, when anyone's voice which is always speaking in the negative gets much attention. It is the prerogative of MBA and any association to speak forcefully and plainly on national developments; and when they are deemed not to be in the public welfare, it is a proper procedure to warn against them and oppose them as well.

The Voice That's Heard

But the group which is always against everything eventually finds its opinions and views little effective. Thus, this year as vitally important developments on the national scene unfold, an effort has been made not to condemn unless something constructive could be offered at the same time.

"We decided to be aggressive and constructive. We are not criticizing merely for the sake of offering criticism and suggesting nothing to take its place," W. A. Clarke, chairman of MBA's special committee of legislation, told the Chicago Conference. He was roundly applauded and a member from Racine arose to say that he was sure he spoke the opinion of those who were there that there was general approval of what this group and the various other committees were seeking to accomplish.

"One very significant thing in our industry right now," Clarke continued, "is the very obvious fact that the public, congress, even men in the highest places, have little or no conception of just what it costs to make, process and invest in mortgage loans. This is vitally important because it explains, in many respects, why some people in high places make suggestions for mortgage rates which are entirely unsound and impractical. These people just do not understand the mechanics of mortgage lending and what happens to a 4½ per cent interest rate. There is much to be done in this field and we must do it."

There is indeed a New Look in MBA and many people in high places have not failed to notice it. For instance, Sen. Sparkman, when he was questioning John C. Thompson, former MBA president, at the senate hearings on the middle income legislation, remarked:

"Let me say that I think the Mortgage Bankers Association in recent times, based upon such self-examination statements as that, have offered us considerable hope of new activity."

Later, when Mr. Clarke was testifying for MBA, the discussion went as follows:

Senator Sparkman: I have discussed this several times with Mr. Neel and I have said several times during the course of these hearings that I think the proposals you people have made constitute real hope. I believe you are working on a constructive program.

Mr. Clarke: That was the approach we wanted to take.

Senator Sparkman: I have had the privilege of seeing some of the remarks you have addressed to your group from time to time and I have been very much impressed with them. You have pointed out a truth that I think everyone ought to remember. That is that FNMA exists because it was found necessary in order to keep these things moving. As you pointed out to your own people, FNMA was using a lot of money because you made it use a lot of money.

Later on:

Mr. Clarke: We would be delighted to work with you or Mr. Foley in any way that you find possible.

Senator Sparkman: I am sure that it would be quite helpful and I am sure that Mr. Foley would be delighted to have your assistance.

Mr. Clarke: He has so expressed himself.

Senator Sparkman: It does strike me as being a very hopeful sign when one great organization in the private lending field is willing to come in here and instead of saying, "We are against everything you proposed," is willing to set down and try to work it out.

Mr. Clarke: All we want is to try to help to work it out.

A Plan That Works

The policy pays off, too. During the period when the senate subcommittee was considering what action to take on the middle income bill, recommendations were held up temporarily to determine from other government officials what effect the cooperative housing plan might have on the nation's economy and what might be the possible inflationary aspects.

MBA's voice was listened to during that decision; and while the ultimate action which the senate group took was not in line with the Association's recommendation, it was not nearly so drastic as the original proposal. And the middle income legislation isn't final yet by any means.

This is the type of work which the Association's committees are quietly but effectively performing for the benefit of the mortgage industry day in and day out. Unaccompanied by beating of drums or dire threats and warnings of impending doom, the Association has succeeded in helping point the way to much constructive action which benefits a whole industry.

NOTES TAKEN AT A MEETING

THE GREATEST ASSET IN YOUR BUSINESS IS YOU—HOW ARE YOU PRESERVING IT?

WHAT'S the greatest asset you have in your business? It isn't your institutional contacts, it isn't the volume you're doing and none of those things that immediately come to mind. Your greatest asset is yourself —and you ought to take care of it better than you are probably doing right now. Wallace Moir of Beverly Hills passed along that advice to MBA members in the last talk of the two-day Chicago Conference. It was an event that few if any who heard it will ever forget.


Wallace Moir

Too many people in the mortgage business are batting their brains out trying to do more than they should be doing. Learn to live on what you're making, take more time for your family —in short, learn to live, strive for more peace of mind and cut out worrying about things that won't happen. Are mortgage profits adequate? They're satisfactory, said Moir, so try to live within them and preserve your greatest asset—yourself.

It was one of those long to be remembered events, this talk by a man who has a philosophy none would care to challenge but which all too few have had the courage and wisdom to adapt to their own lives.

As to the mortgage industry specifically, Moir said:

›› Conventional loans are still the biggest part of our business. Don't ignore them. Gear your organization and facilities to greater attention to conventional loans.

›› And don't slight your insurance department. If you doubt its importance, subtract its profits from your total profits and you'll see differently. Most mortgage bankers' profits come from the by-products of the business anyway.

›› Use MBA. It's your trade organization. Devote serious attention to everything it's doing and trying to do. Come to the meetings and speak your mind. Don't be afraid to ask questions, to query your officers, to ask for help. Read the material that emanates from the national office. You never know how valuable your membership can be until you use it fully. Moir said he once had a particular loan to sell and consulted the MBA Directory to see which insurance companies might be interested. He wrote five companies and one response looked promising. In the end, the company didn't buy the loan but Moir made a contact to which he sold more than a million dollars of loans—before he ever met a representative of the Company.

Finally, when an official of the company arrived in California Moir inquired, "I'm curious to know why you dealt with us as you have without ever having met us?"

"Oh, we made inquiries about you all right, from members of the Mortgage Bankers Association in whom we have full confidence. We knew what we were doing."

There was more, a good deal more, in the Moir message but it's the sort of thing that loses some of its effectiveness and appeal in type without the sincerity of the spoken presentation. But it was a message we wish every mortgage man could hear.

Worth READING

Members who did not get to the MBA Midwinter Mortgage Conference in Chicago will find some interesting reading in the addresses given there. Those that are available to you on request to the headquarters office are:

How Correspondents and Mortgage Lenders Can Work Together to Reduce Servicing Costs by R. B. Patrick, Financial Vice President, Bankers Life Company, Des Moines.

Excess Rentals and Their Treatment in Appraising by D. L. Montonna, manager, real estate division, American Appraisal Company, Los Angeles.

What the new savings bank legislation in New York and Massachusetts will mean to an expanded market for FHA loans by Irvin Bussing, vice president, Lowell, Smith & Evers, Inc., New York.

Institutional Investor Market for Mortgages by Richard M. Hurd, vice president, Teachers Insurance & Annuity Association, New York.

Outlook for Rental Housing by Maurice R. Massey, Jr., vice president, Peoples Bond & Mortgage Company, Philadelphia.

A LOT OF 608s WERE LEFT OUT IN THE COLD

WONDER how many 608s were left out in the cold? The President's authorization of the final $300,000,000 came the last day of the Chicago Conference but even before that those who were attending had been trying to find out what would happen when the wind-up came. Finally, the question was addressed to FHA Commissioner Franklin D. Richards at the conclusion of his address. He said he could not give an exact figure as to how many were in there and how many might get through. That didn't satisfy the member and Richards then estimated that possibly there was as much as $800,000,000 to $900,000,000 projected. When the $300,000,000 has been exhausted, it would appear that as much as five or six hundred million in 608s didn't make the grade.


F. D. Richards

Richards vigorously defended 608s. We've insured $2,400,000,000 of 608s and so far there hasn't been one cent loss, he said. These 608s are well-

located, well-built and well designed, Richards declared, and this skepticism that is being encountered here and there certainly isn't warranted based upon facts anyone has now.

Some resistance to higher rents has already set in, he said, but the foreclosures will not be as high as had been previously estimated.

What about the 608 reserve account, a Chicago member wanted to know. Richards said that, in his judgment, it will be entirely sufficient to meet all demands on it.

TITLE VIII PROGRAM HAD MANY FLAWS BUT THEY ARE BEING CORRECTED FAST

MBA members who have been working on Title VIII projects and encountering endless delays and confusion will find, it now appears, that better days are ahead. Bertram E. Giesecke, chairman of the defense housing commission in the department of defense, told our members at the Chicago Conference the story of what has transpired so far and what is hoped will be done—emphasizing that one fact remains constant: namely, the great and pressing need for better housing at our military installations.

He said the delay in getting better housing at these bases has been due to defects in the original program.

The stop-order halted future military housing construction plans but did not affect the 79 projects involving 32,000 housing units which were underway when the order was announced. These are proceeding but new ones projected after the stop-order date have been held up. Giesecke and his commission have just returned from Alaska where conditions are particularly bad and where, he said, "armed forces personnel are living in the worst kind of shacks and paying $150 a month for them."

Another difficulty after the Wherry bill was passed last August, he said, was that each of the three services immediately "went off in different directions to satisfy their housing needs." The air force, being the youngest, went far afield, he said, and more difficulty has been encountered with this branch.

Now, at last, the actual needs of the three services have been fairly well determined, Giesecke said. The army needs 78,000 units, the air force 50,000 and while the navy's needs are a little indefinite, it appears that its requirements will be about 50,000 units.

Congress wants private enterprise to build this military housing, he declared, and is generally disappointed at the high cost at which the government agencies have built some of it in the past.

"Officers generally have put up with this bad housing but it has been a disastrous thing for enlisted men. For instance, sergeants — technical sergeants for example, the backbone of the service—so often won't reenlist when they and their families have to put up with the disgraceful housing conditions which they have had to endure at our military bases."

"GO EASY ON PRIVATE FNMA," COOGAN SAYS

THE builders have an apprehensive eye cocked in any direction where an effort might emerge that would put an end to Fanny May. Thomas P. Coogan, the new president of the National Association of Home Builders, came to our Chicago Conference after a hectic week at the big Builders Convention.

"Go easy on any plan to set up a private FNMA," he told our group. "Investigate it fully before you act. If Congress passes legislation that would make it possible and you can't go through with your plans, the reaction would be extremely bad. You should avoid anything that would mean the abrupt end of FNMA.

"As for me, I think FHA is good and that FNMA is good. I'd like to see FNMA back doing the same type of operation it was in the beginning. Actually, when the secondary market was an operation whose policies were set by the agency itself, it was good. It is only since it came under the control and direction of congress that it became such a factor."

Coogan has been chairman of NAHB's mortgage finance committee and has a deep and active understanding of the mortgage industry.

"Our two organizations have much in common. We should work together as closely as we can."

Mortgage men will meet in Coogan a man who knows their business and understands it fully. He'll be with us at our New York Conference in April. Right at the moment he thinks the biggest problem we have is the difficulty of construction financing which, he said, in some places is almost impossible to secure.

HOLC IS APPROACHING TAIL END OF ITS JOB

HOLC is getting out of business fast. Recent deals closed cover all of the 81,000 remaining mortgages of the corporation in New York, Massachusetts, Connecticut, Rhode Island, Michigan, New Jersey, Mississippi, Arkansas, Colorado and West Virginia.

State by State figures are:

State	Number of Loans	Amount
New York	40,000	$102,000,000
Massachusetts	8,600	17,800,000
Connecticut	2,800	6,000,000
Rhode Island	1,400	2,700,000
Michigan	11,200	14,500,000
New Jersey	13,800	29,600,000
Mississippi	750	850,000
Arkansas	750	750,000
Colorado	950	870,000
West Virginia	800	900,000

Purchasers—including mutual savings banks, commercial banks, trust companies and savings and loan associations—have paid par and accrued interest plus premiums of up to 2.5 per cent of balances.

HOLC is now weighing bids for the purchase of its entire mortgage portfolios in seven other states: Illinois, Wisconsin, Indiana, Pennsylvania, Ohio, Kentucky and Iowa. At December 31, these holdings embraced about 49,700 mortgages, representing a dollar balance of $68,200,000. By states the approximate totals are:

State	Number of Loans	Amount
Illinois	12,200	$21,300,000
Wisconsin	5,400	8,700,000
Indiana	4,400	3,700,000
Pennsylvania	12,800	16,000,000
Ohio	11,700	15,300,000
Kentucky	1,200	1,500,000
Iowa	2,000	1,700,000

The program contemplates that, as a result of the state-wide sales, approximately 70,000 loans can be marketed and delivered during the fiscal year ending next June 30.

The HOLC has reported on the result of an earlier phase of its efforts to hasten its liquidation and final closeout as a government agency. A new speed-up program was launched in 1948 in States where total loan balances were small. Borrowers were encouraged to pay off their loans in full where possible or to transfer them to savings and loan associations, banks or other financial institutions. They were given the opportunity of refinancing the mortgages with local lenders of their own choice.

The plan was extended gradually into 20 states and the District of Columbia. In Nevada, Idaho and Wyoming, all loans have already been paid off. States with more than 99 per cent of dollar balances paid out during the campaign include Montana, New Mexico, New Hampshire, Oregon, North Dakota, Arizona, Utah and Washington. In four other states over 95 per cent of the balance has been repaid since the program began.

"It should be noted that these special programs are in addition to the normal liquidation of the HOLC loans which has taken place steadily through monthly payments by borrowers and the continued efforts of the corporation to induce all of those with small balances to pay off in full," said William K. Divers, chairman of the Federal Home Loan Bank Board. "We estimate that about 40,000 of the borrowers in these latter groups will pay their final installments during the current fiscal year."

★ Ideas about SERVICING

CUTTING DUPLICATION PRIME REQUISITE FOR MORE EFFICIENT SERVICING PLAN

By T. J. MELODY
Comptroller, General Mortgage Corp., Des Moines

OUR company services in the ten to twenty million dollar bracket for over 50 separate investors. Our problem is to coordinate our operations with the various systems and requirements of these investors. We must carefully follow the regulations as set forth by the various government agencies who insure a major portion of our loans.

We found during 1943 and 1944 that our system was much too cumbersome and if we were to handle the expected rush of postwar business and increased servicing we must take steps to streamline our operation so that our costs would not increase proportionately with this increase of business.

At that time we had two bookkeeping machines which required the full time of two operators to post our loan cards, prepare remittances to investors and our general ledger posting. Today we are servicing over three times as many loans in addition to the added operations necessary in FHA-GI combination loans with two operators. These operators also handle bank deposits, borrowings on company owned loans and construction advances, code all vouchers for general ledger posting, assist the cashier with collections and many other duties which were not part of their responsibility during 1943 and 1944.

Plan Followed

Space won't permit a detailed account of all improvements but here is a brief outline of a few major items:

During the 1943-1944 period we posted daily to each of our 50 odd investors. As we operate on the voucher system, it was necessary to post each day's collections to all investors before an operator could continue with the next day's posting. We found this was slowing down our posting and remittance to larger investors to whom we were remitting every few days. We accumulated the daily posting on investors who wished only one remittance per month, and transferred the information to small reports which were typed and balanced with the machine posting.

We now have a remittance deadline for all investors. We post daily to investors whose servicing exceeds one million dollars. We credit daily collections to a liability account entitled "Suspense Account" prefixed by the investor's name on a few large investors who prefer only one or two remittances per month. Where this practice is permissible we can eliminate the daily posting and balancing of the borrowers cards and investors control. We balance the total month's business on the investors control but once, rather than daily.

On over thirty investors we credit their daily collections to a liability account entitled "Miscellaneous Suspense Account" for a monthly remittance. We plan a specific day for posting these collections so the report will reach the investor before the end of that particular month. By posting but once per month to these investors we can eliminate many operations. On the day of remittance we post but once to the investors control for all collections for the monthly period. On the general ledger we debit this

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Duplication is one of the great bugaboos of the mortgage industry. R. B. Patrick of Bankers Life Company of Des Moines described one phase of it at the Chicago Conference when he asked why investors and correspondents persist in keeping the same set of records. It just doesn't make sense, in his opinion, and is one of the possibilities open to both of them to cut their costs substantially.

Mr. Melody, in this month's Servicing Department, describes a cost-saving idea that worked in his office with the result that a good deal of useless duplication has been eliminated. No doubt this field is just about inexhaustible; and this is the place where we'd like to pass along the report of anything you've done to cut down on duplication.

Sharing the Servicing Department this month is a report on how another firm set up a clearing account for deposit of all loan collections. A number of mortgage offices would like to do the same thing but, as a Philadelphia company writes, "our largest mortgagee objects because their auditors want to follow each individual item from the time we receive it until it is remitted."

Mr. Melton has made a further elaboration of his plan:

"We did not clear with our individual investors the establishment of this clearing account because most of our clients do not have any special requirements in this connection. At the time the account was established, there were only three of our principals who did require their funds to be segregated in special escrow accounts and we felt the worst that might happen would be that a special program would have to be adopted for one of these. Subsequently, in the course of audits, reports, etc., no objection has yet been raised. In view of the clearing account being totally neutral in that nothing but loan checks for clearing go into it and the sum representing the total of these checks is almost immediately withdrawn, we felt none of our principals would have any objection to this method of handling collections."

In addition, William I. De Huszar, treasurer, Dovenmueble, Inc., Chicago and author of MBA's Handbook of Mortgage Loan Servicing Practices is represented by a discussion of collections and delinquencies and John F. Austin, Jr., president, T. J. Bettes Company, Houston, has some things to say about personnel problems based upon his experience with one of the largest mortgage staffs in the country.

suspense account and credit the escrow and interest and principal accounts of each individual investor.

One operator can post, balance, write remittance checks and mail to these thirty investors in one day. We have a small report sheet which is posted on the bookkeeping machine, balanced, folded, placed in a window envelope with the remittance check and mailed. This gives all our investors an exact carbon copy of the posting to the borrower's ledger card.

And here is another operation which has eliminated hundreds of entries on our general ledger. We formerly handled all detail on each individual item of insurance and real estate by separate voucher which was posted in detail to our general ledger. We found that each department was keeping accurate records also. We now have each department balance its records which are audited by our accountant at the close of business monthly. We now make journal vouchers to cover the total month's business in each department. We find this method has eliminated many errors which are certain to result in a large number of separate vouchers.

With these and many other short cuts we are able to give our board of directors a profit and loss statement within a few days after the close of business in any month. We also furnish quickly many other statistics which the officers of the company feel are necessary to their knowledge of operations. We do not believe in making statistical reports such as the above unless they serve a purpose. We feel statistics are useful if they are understandable, on a vital part of the business and not over a few hours or days old.

CLEARING ACCOUNT FOR DEPOSIT OF ALL LOAN COLLECTIONS IS BIG TIME SAVER

By A. R. MELTON

Treasurer, First Mortgage Corp., Richmond, Va.

THE establishment of a clearing account for deposit of all loan collections has been of great help in saving time in our accounting department. Due to circumstances of our growth and the requirements of a number of those accounts which we service, we now maintain sixteen agency and escrow accounts. Until we adopted the present system, it was our custom to segregate a total of checks and cash equalling the collections to be deposited, in each account, and to make the deposit to that particular bank account.

The cashier, in taking in loan payments over the counter, did not separate the funds as they came in; so it was only by chance that a borrower's check was deposited in the bank account in which his loan was grouped. This did not matter except where checks were returned; and, fortunately, experience in this respect has been exceedingly favorable during the past few years, so it is not a problem.

By chance, in connection with the discussion of the operation and capacity of one of our machines, the idea was born of opening a clearing account for the deposit of all loan collections, transferring therefrom daily the respective sums collected for the individual accounts. This plan saves sorting the checks and working out individual totals of collections for each agency account—quite a job at heavy times of the month. It saves difficulty in promptly charging the correct account with returned checks. It simplifies reconciliations of bank accounts for we know all loan collections go into the clearing account, the total of these daily collections is drawn out on the succeeding day, and the account always balances on the books. As the agency and escrow accounts have only the one daily check deposited to their credit and no return debits, these accounts are more readily audited at the end of the month.

Of course, one may wonder if such an agreement is agreeable to FHA. It is, under certain conditions. We wrote to Mr. Thompson, comptroller, relating the circumstances; and he advised such an account was permitted and related the conditions under which it would be approved.

The idea of a clearing account is not new and many mortgagees are using it now; however, there must be many others who haven't run into this idea and to whom its benefits will be apparent.

GOOD EMPLOYEE SET UP BIG BUSINESS ASSET

By JOHN F. AUSTIN, JR.

President, T. J. Bettes Company, Houston

IN THE field of human relationships, probably none has a more stormy and strife-ridden development than that of the employee to the employer. In earlier days of our economic development it was generally accepted that the objectives of management and labor were directly opposed and no quarter was asked or given to attain those objectives. There are schools of present day thought that maintain the paternal view of complete harmoniousness of objective, but these are certainly in the minority. The generally accepted solution today lies somewhere between these

John F. Austin, Jr.

two extremes; and the successful personnel manager is one who, according to the local situation, can evolve a plan of relationship acceptable to both labor and management.

Increased paternalism of the government in minimum hours and wages, proposed health and accident coverage and retirement benefits through the Social Security program tend to make the individual employee welfare conscious. This, together with constantly rising salary levels, the necessity for prompt and efficient discharge of service obligations to investors and the trend toward unionization by clerical employees make the employee-employer relationship one of the most important facing management today.

Management by constant review must determine the state of morale and interest in the organization to provide the basis for new or corrective personnel policies. Morale measurement should be undertaken periodically, and may take the form of surveys by outside organizations. Continuous evaluation of the program within the organization can be had by proper surveys, by analyzing complaints and grievances of the employee, and by interviewing objectively those persons leaving the company. All of these efforts should be directed toward determining the underlying causes of poor morale and lack of interest, and should form basic considerations for management in the pronouncement of personnel policies.

I have tried to state some general principles of personnel management and to point up some of the problems encountered. Certainly the problem is not one capable of immediate and final solution in any case, but will vary with each company and local conditions. Since a presently acceptable solution in any case must depend on many variables, management must accept the viewpoint that personnel management is a dynamic problem, and by constant evaluation and improvement provide that leadership necessary to insure a satisfactory employer-employee relationship.

This discussion is limited to personnel management, the concept of the employee as an individual. To isolate this point, consider these definitions:

» MANPOWER MANAGEMENT, the function of planning, coordinating and directing human resources in economic endeavor.

» LABOR RELATIONS, the official relationship of employees and their organizations to management in a negotiating aspect.

» PERSONNEL MANAGEMENT, manpower management that is concerned with employees as individuals.

Management determines and announces the personnel policies for the company. The personnel manager is responsible to management for courses of action to attain the results desired in conformance with the policies stated. Management, by review of the results obtained, will appraise and evaluate both the announced policies and the effectiveness with which they have been carried out.

The duties of a personnel manager are:

1. Interview, process and maintain current files of available applicants.
2. With consent of the using department, employ, assign and authorize pay for selected individuals.
3. Administer company sponsored health and accident and life insurance plans, retirement credits, loan funds and other enterprises affecting the employee as an individual.
4. Maintain current records of employment.
5. Supervise welfare and morale activities.
6. Recommend personnel policies to management.

What personnel policies would make for the basis of a satisfactory relationship between employer and employee? In other words if we have the best qualified employees available, what would be the minimum operating conditions that a company could offer. Let me submit the following statement of personnel policies:

1. To train each selected individual thoroughly in his assigned task, and to familiarize him with the work done by others.
2. To provide all employees with the most efficient mechanical aids and devices to increase his effectiveness.
3. To provide a safe and orderly place of work during reasonable hours.
4. To pay each employee a fair wage for the work performed.
5. To set aside a portion of the profits to help each employee prepare for sickness, accident, disability or death, and retirement.
6. To keep all employees informed of what the Company is doing, and to provide a medium for the exchange of views and ideas.
7. To comply with all state and federal rules of employment to the letter and spirit of the law.

Now let us look for a moment at some of the major personnel problems. In any organization the considerations of morale and interest in the job are major considerations. Closely allied to morale is the interest that an employee takes in his company and in his job. This interest is essentially the major consideration in the personal attitude of the employee toward his job, consequently becomes an important facet of morale.

Have you got some special servicing problem? Then send it to this department and it will be submitted to the MBA committee which has servicing under study. We will get an answer for you. And have you inaugurated anything new in your own servicing procedure, something that has meant a more efficient and economical operation? Let this department know about it so that a report of it can be passed along to the MBA membership.

COLLECTIONS *and* DELINQUENCIES

require the best you have in servicing efficiency

By WILLIAM I. De HUSZAR

Treasurer, Dovenmuehle, Inc., Chicago

THERE is nothing more important in the field of collections than the correct diagnosis of each delinquency case. If your collection man can size up the situation, and from a call, a response, a personal visit or an interview, make an accurate guess of the kind of delinquent borrower with whom he is dealing, your collection problems are in good hands.

A good collection employee is more important than a good collection system. The latter can be developed by the former; but no system will teach a man how to think or act in time of need.

There are two types of follow-up systems in general use today, depending on the type of receipt given to borrowers when payments are made.

If the borrower gets a payment-notice for each payment, the duplicate of the notice is used as the first reminder, the third copy as a second notice.

If the company uses pass books, past-due notices must be prepared either from the cashier cards or bookkeeping records. Psychologically, a reminder or a past due notice may have a better effect on a borrower who does not receive a payment notice each month. A number of mortgage companies do not send payment notices on the assumption that it is inconceivable that an FHA or GI borrower does not know that his payment is due.

At the time the MBA research committee sent out questionnaires most mortgage companies followed the practice of sending out one past-due notice after the other. One went on the tenth, another on the fifteenth, and another on the twenty-fifth, or on other suitable dates. The last of these notices even threatened legal action. Only a limited number of companies deviated from this procedure. Those who did dispensed with the automatic feature of sending notices. Accordingly, only one notice was sent. I am inclined to favor this latter procedure. If there was no response, the borrower was called on the telephone either at home or his business. *One call is worth three notices.*

Sending two or three notices at five or ten day intervals is just like shooting arrows into the air. You don't know where they land or whether they hit the borrower. You don't know what the borrower intends to do until you have a chance to talk to him.

Past due notices on FHA loans should go out on the fifteenth of the month. This may not be easy if you have a large volume of loans and don't use the receipt system. It is a good idea to indicate the 2 per cent penalty charge that must be enclosed for late payment. Don't mention, however, that you will deduct the late charge from the reserves if it is not paid. FHA called our attention to the fact that the sample form on page 42 of the MBA Handbook does not correspond to the FHA regulations. So, if you have this type of wording on your notices, eliminate it; if you have contemplated adopting it, don't.

Enforce the collection of late charges but waive it if there is real cause for delay. The purpose of the late charge or penalty is not to provide additional revenue for the mortgage company or to create an additional burden for the borrower. It is designed to remind the borrower that it actually costs time and trouble to collect his payments. Many borrowers make every effort to pay on time after they find that it costs a dollar each month to be late.

It is also a good idea to change your collection techniques from time to time even if the change is nothing more than the color of your past due notices. If, for a while, you called the borrower on the telephone and are getting his payments but are really not curing the delinquency, change your approach. Ask him to see you. Write him a letter. Or if you have written a borrower two or three letters, start calling him. The idea is to do different, unexpected things. The element of surprise or novelty is very important.

Do you send reminders enclosing collection envelopes? If so, why? Maybe it has a good psychological effect and gets a payment but actually it creates a reverse effect. You may

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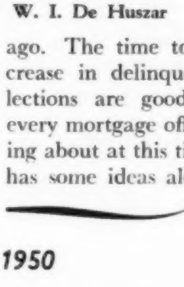
The problem of loan delinquencies in the postwar period has been one about which many have been sounding warnings and making the most dismal predictions but so far it's a problem that hasn't caught up with us yet. Collections appear to be generally good, but of course not quite what they were a year or so ago. The time to get set for an increase in delinquencies is when collections are good; and that's what every mortgage office should be thinking about at this time. Mr. De Huszar has some ideas along those lines.



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make the borrower wait for the next collection envelope. Or do you allow your investigator or loan man who stops in to see the borrower to accept the payment? If you do, reconsider this idea. If you accept just one payment, the delinquent borrower will wait for the next call.

If payments persist in coming in irregularly, it is best to take stock. What makes the borrower "tick"? Let him find out what makes you "tick." Ask him to see you or have one of your men see him. After such an interview, write up a delinquency report for your files. There is a good sample of such a report in the Handbook.

Have a Firm Policy

When you talk to the borrower, try to make *definite* arrangements. Don't just accept his word to pay. Pin him down. A great number of loans can go into serious delinquency by having the collection department first jump on a borrower, tell him how serious the delinquency is, make him promise a payment for a certain day —and then allow him to forget his promise. You can't go back to him later saying that you forgot to remind him.

We have found that after a borrower visits our office his payment record usually improves. The only interpretation we can make of this phenomenon is that he finds that we're human too. When you talk to the borrower in your office, work out a positive payment plan with him. Let him suggest the payments that he intends to make, which, of course, should bear direct relationship to the urgency for clearing the account. If he is paid weekly, take weekly payments; if semi-monthly, allow him to make semi-monthly payments. Confirm your arrangements in writing by having him sign a copy of the payment plan to which he agreed.

Make sure that the investor approves of the plan; it is safer to tell your borrower that the plan is subject to the approval of the investor even though you are sure that the investor will approve it. Remember also that the seriousness of a delinquency case is not always measured by the number of payments the borrower is in arrears. Continuity of payments at times is more important.

Now about follow up records, I personally believe in these quite strongly. I have seen collection records kept on slips of paper or maintained in the head of the man who handled collections. You can't collect payments in that manner in good times so you should not attempt to do it any other time. You shouldn't use the cashier or bookkeeping ledger cards as your follow up records either. Set up your own collection records. Don't make them elaborate; use a card with tabs, or a card with progressive signals. Set them in a box or a visible index file and use them. You can make up your own system to fit your own needs.

Let's say you have 30 bad accounts. Make a card for each of them. Add to this card system as soon as a borrower fails to pay regularly and remove those cards no longer needed. Mark the records with tabs showing the last month which was paid. At a glance you can see how you stand and how each loan stands compared to the other. Mark the records with a little tab showing the date on which payment was promised. Pretty soon you will have a card record showing various dates. Then each morning you can just take a glance at your records and know which payments should be in.

It is also of great importance to evaluate the loan from the standpoint of real estate value and the amount of equity the borrower has. A man who has an investment in his home will struggle to keep it. This consideration will grow more and more important as general business conditions create an increasing number of delinquencies and foreclosures. You cannot, however, look to your collection man to pass judgment on all matters involving loan values. These problems should actually be referred to the loan committee through which the loan originally passed.

Try to educate your delinquents to call you. Tell them that you can do much more for them if they cooperate and let you know that they cannot make the payment that they promised than if they have to be chased. If the borrower calls to tell you that he can't make the payment, write it down. The fact that *he* called is an important factor for your delinquency history. It means the borrower cares; he works with you.

If you want to make your borrowers get into good habits, you must have good habits too. Borrowers will act much better in firm hands than under slipshod treatment and hit-and-run methods. Be firm and understanding.

If some of these suggestions appear to be expensive, keep in mind how much more expensive it will be for you to handle foreclosures and how much you lose in the opinion of your investor by not being able to collect the payments.

Remember that in handling collections and delinquencies, mortgage bankers are performing a two-fold function: We help and work with the borrower and earn his appreciation and cooperation; we perform a servicing function for our investors.

Investor Confidence

During the past years we produced good loans and the institutional investors were eager to buy them. They bought these loans trouble-free without thinking too much of possible problems. Therefore, if we want to merit their continuous confidence we must do a good job of servicing. In the last depression, insurance companies found out to what extent they could rely on their servicing agents. Those who did a good job of collections during the hard years have earned a reputation their investors have not yet forgotten. The test of the mortgage company's ability to perform its functions is not made in good times. It is under trying conditions that the investor will really judge the performance of its servicing agents.

(Continued from page 7)

» ROPE'S END: Relaxation of credit terms as a means of stimulating a lagging economic system is a device which, in our present credit market, is being rapidly exhausted.

First, we have been operating in a money market characterized by a continuing insistence on low and declining rates of interest, mainly to ease the problem of financing the public debt, and by a virtual disappearance of effective control over expansions of the money supply, also due to the insistence of our monetary authorities on an easy money policy.

Mortgage lending agencies have not been immune from the effects of these developments. The results of this may be seen in the remarkable decline in interest rates since the early thirties and the general liberalization of loan contract terms. The interesting and significant point is that there is no real chance of interest rates going much if any lower, because they are now at a level at which the net return to the lending agency, after meeting the costs of acquiring and servicing mortgage loans, is no higher than the return on riskless investments in the public debt itself than is necessary to provide the extra return needed to set up adequate loss reserves.

I won't review here the factual basis of this statement but merely state that it is based on a careful study of mortgage lending costs and returns, and that I make it with confidence. Second, loan-to-value ratios have now reached the point where, with the exception of conventional loans, lenders are left with no further freedom to relax credit; indeed, it might be argued that they have already gone past the permissible limit in this matter, certainly so far as that limit is indicated by the common rules of financial prudence. Finally, maturities have now been extended to the point where any further extension will have effects on the monthly payment requirements under loan contracts that are not likely to be of any great consequence in spurring home purchases.

» CAN'T DO MORE: The sum of these changed conditions is that we are left at this time with no appreciable means, within the framework of the private financial system itself, by which economic conditions can be stimulated by the conventional means of liberalizing credit terms. That we have little if any chance of tightening terms, should the circumstances develop that would indicate such a turn of credit policy, is fairly well demonstrated by the legislation setting up a secondary market for mortgages. This legislation shows, better perhaps than anything else that has transpired in recent years, how far we are prepared to go to avoid an increase in mortgage interest rates. There is nothing wrong with the current supply of private mortgage money that could not be cured by a rise of about one-half of one per cent in the borrowing rate.